IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

ELECTRO MEDICAL EQUIPMENT LTD.	:	
	:	CIVIL ACTION
v.	:	No. 99-579
HAMILTON MEDICAL AG, et al.	:	

O'Neill, J. March , 2000

M E M O R A N D U M

Presently before me is the motion by counterclaim defendants Electro Medical Equipment Ltd ("E.M.E.") and Sensormedics Corp. to dismiss the counterclaims pursuant to Fed. R. Civ. P. 12(b)(6) and 12(b)(7). I will deny the motion under Rule 12(b)(6) without prejudice with leave to amend after briefing on choice of law. Further, I find that Hamilton Medical AG is a necessary party to the counterclaims. However, rather than dismissing the counterclaims under Rule 12(b)(7), I will order that Hamilton Medical AG be made a party pursuant to Rule 19(a).

BACKGROUND

The original complaint in this matter makes Lanham Act and state law claims against Hamilton Medical AG ("Hamilton-Switzerland") and Hamilton Medical, Inc. ("Hamilton-Nevada"), a wholly-owned subsidiary of Hamilton-Switzerland.[1] Hamilton-Nevada has asserted

[1] The background to these claims was described at length in my previous Order regarding personal jurisdiction. See Electro Med. Equip. Ltd. v. Hamilton Med. AG, No. 99-579, 1999 WL 1073636, at *1-2 (E.D. Pa. Nov. 16, 1999) ("E.M.E. I").

counterclaims against E.M.E. and Sensormedics[2] for tortious interference with contractual relations, civil conspiracy, and defamation. Hamilton-Switzerland has not joined in the counterclaims.

The counterclaim defendants argue that Hamilton-Switzerland is a necessary party,[3] and therefore the counterclaims should be dismissed without prejudice with leave to amend. They also argue that the counterclaims fail as a matter of law on a number of substantive grounds.

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[2] Sensormedics is not a plaintiff on the original claims.

[3] Counterclaim defendants argue that Hamilton-Switzerland is the real party in interest to the counterclaims under Rule 17(a). This argument fails because "[t]here may be multiple real parties in interest for a given claim, and if the plaintiffs are real parties in interest, Rule 17(a) does not require the addition of other parties also fitting that description." H.B. General Corp. v. Manchester Partners, L.P., 95 F.3d 1185, 1196 (3d Cir. 1996). Hamilton-Nevada is clearly a real party in interest to the counterclaims; therefore, Rule 17(a) has no impact on Hamilton-Switzerland. Second, counterclaim defendants argue that Hamilton-Switzerland is an indispensable party. However, the label "indispensable party" properly applies to a Rule 19(b) party who should be joined but cannot be because of a lack of personal jurisdiction, or because joinder would defeat subject matter jurisdiction. See Hall v. Nat'l Serv. Indus., Inc., 172 F.R.D. 157, 159 (E.D. Pa. 1997) ("Rule 19(b) governs the situation where a party is necessary and must be joined, but joinder cannot be effectuated, such as when subject matter jurisdiction would be destroyed."). Since Hamilton-Switzerland is already a defendant and both personal and subject matter jurisdiction exist, Hamilton-Switzerland cannot properly be labeled an indispensable party. In my view, what counterclaim defendants should argue is that Hamilton-Switzerland is a "necessary party" under Rule 19(a). See Janney Montgomery Scott, Inc. v. Shepard Niles, Inc., 11 F.3d 399, 404 n.4 (3d Cir. 1993) ("The present version of Rule 19 does not use the word 'necessary' . . . The term necessary in referring to Rule 19(a) analysis harks back to an earlier version of Rule 19. It survives in case law at the price of some confusion."). I will so construe counterclaim defendants' argument.

DISCUSSION

Fed. R. Civ. P. 19(a) states:

> A person . . . shall be joined as a party in the action if . . . the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest.

The counterclaim defendants argue that allowing Hamilton-Switzerland to sit on the sidelines while Hamilton-Nevada prosecutes claims against them would create a substantial risk of double, multiple, or otherwise inconsistent obligations because Hamilton-Switzerland would likely pursue its own litigation if Hamilton-Nevada is unsuccessful. This argument is particularly forceful given that, according to Hamilton-Nevada's pleadings, it merely distributed the product at issue in the counterclaims, and Hamilton-Switzerland designed and manufactured that product. See Amended Answer ¶¶ 30, 48; Counterclaim ¶¶ 7, 27.

Hamilton-Nevada makes two responses to that argument. First, it argues that Hamilton-Switzerland "does not wish to further entangle itself in this action" and is content to have its wholly-owned subsidiary prosecute the counterclaims because the conduct at issue took place in North America. See Hamilton-Nevada's Mem. at 12. This statement of Hamilton-Switzerland's preference is not an argument that it not a necessary party. It asks the Court and the counterclaim defendants to accept on faith that the Hamilton-Switzerland will remain on the sidelines even if Hamilton-Nevada eventually loses. Moreover, Hamilton-Switzerland's "further entanglement" in these proceedings will be marginal since it is already a defendant to the original claims and is represented by the same counsel as its subsidiary.

Second, Hamilton-Nevada argues that the counterclaim defendants are protected from

future litigation because Hamilton-Switzerland "might" be bound by the results of this litigation. Id. It is inappropriate, if not impossible, for me to judge the preclusive effect of whatever judgment I may eventually enter in this case, particularly at this early stage in the litigation. Cf. Steven R. Harmon, Unsettling Settlements: Should Stipulated Reversals be Allowed to Trump Judgments' Collateral Estoppel Effects Under *Neary*?, 85 Calif. L. Rev. 479, 525 (1997) ("It is a fundamental characteristic of the doctrine of collateral estoppel that the deciding court (the court resolving an issue for the first time) cannot dictate that its findings be accorded preclusive effect; that decision rests with the court entertaining an action in which a prior judgment is invoked as collateral estoppel. This principle follows from the premise that the applicability of estoppel cannot be conclusively determined until later litigation is underway."). Indeed, even Hamilton-Nevada is reluctant to predict the preclusive effect this case would have on Hamilton-Switzerland, as is evidenced by its persistent use of uncertain language. See Hamilton-Nevada's Mem. at 12 (arguing that Hamilton-Switzerland "might" and/or "could" and/or "may" be bound by the results of this litigation).

Assuming arguendo that the counterclaim defendants would be spared the burden of future litigation because of the preclusive effect of this action, Hamilton-Switzerland is still a necessary party under Rule 19(a)(2)(i). Under that provision, a party should be joined as a necessary party if "disposition of the action in the person's absence may as a practical matter impair or impede the person's ability to protect that interest." Fed. R. Civ. P. 19(a)(2)(i). In other words, if the judgment in this case is likely to have a preclusive effect, then Hamilton-Switzerland ought to be joined so that it may protect its rights. Cf. 7 Wright, Mill & Kane, Federal Practice and Procedure § 1602 (2d ed. 1986) (in the context of Rule 19, "[t]he failure of

the court to protect those not before it may amount to a violation of due process should the judgment in the action have the effect of destroying their rights").

For these reasons, I find that Hamilton-Switzerland is a necessary party to the counterclaims. The counterclaim defendants have asked that, if Hamilton-Switzerland is found to be a necessary party, the counterclaims be dismissed with leave to amend so that Hamilton-Nevada can join Hamilton-Switzerland. However, that is not the course of action normally contemplated by the Rules. Rule 19(a) provides that if the "[necessary party] has not been so joined, the court shall order that the person be made a party."[4] Fed. R. Civ. P. 19(a) (emphasis added). Therefore, I will not dismiss the counterclaims, but will order that Hamilton-Switzerland be made a party.[5]

The counterclaim defendants have also raised a number of substantive defenses. All parties have argued these points by reference to Pennsylvania law. As I noted in my previous Memorandum and Order, the parties have not briefed me on what body of substantive law governs the state claims. See E.M.E. I, 1999 WL 1073636, at *12. Because this case involves parties from four different jurisdictions, including two parties from foreign jurisdictions and no parties from Pennsylvania, I am reluctant to apply Pennsylvania law without full briefing on choice of law. Therefore, the Rule 12(b)(6) motion will be denied without prejudice with leave

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[4] On the other hand, Fed. R. Civ. P. 12(b)(7) empowers the court to dismiss a counterclaim for "failure to join a party under Rule 19." Although this provision likely refers to dismissal because of the inability to join an indispensable party under Rule 19(b), it arguably would authorize the course of action the counterclaim defendants seek here.

[5] Fed. R. Civ. P. 19(a) states that "[i]f the person should join as a plaintiff but refuses to do so, the person may be made an involuntary plaintiff."

to amend after briefing on choice of law.[6]

An appropriate Order follows.

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[6] I am willing to entertain a stipulation from the parties as to what law will apply to the state claims.

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O R D E R

AND NOW, this day of March, 2000, in consideration of counterclaim defendants' motions under Fed. R. Civ. P. 12(b)(6) and (b)(7), and counterclaim plaintiff's response thereto, it is hereby ORDERED that:

1. Hamilton Medical AG is to be made a party to the counterclaims pursuant to Fed. R. Civ. P. 19(a); and

2. Counterclaim defendants' motion under Fed. R. Civ. P. 12(b)(6) is DENIED WITHOUT PREJUDICE with leave to them to renew it within 20 days on the existing papers with briefing on choice of law. Counterclaim plaintiffs may submit their briefs on choice of law within 20 days thereafter.

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THOMAS N. O'NEILL, JR., J.